CITY OF READING

MAYOR

Thomas McMahon

MANAGING DIRECTOR

R. Leon Churchill, Jr.

COUNCIL MEMBERS

Vaughn D. Spencer, President

Dennis M. Sterner
Marcia Goodman-Hinnershitz
Stephen P. Fuhs

Stratton P. Marmarou

Jeffrey S. Waltman

Table of Contents

	Page
Introduction	3
Statistics and Financial Information	7
Population	8
Housing	9
Income	10
Real Estate Assessed Values	10
Revenues	12
Expenditures	14
Fund Balance	15
Debt Management	16
Summary of Proposed 2006 – 2011 Capital Improvements Program	20
Project Descriptions	25

Introduction

In accordance with Section 911 of the City of Reading Home Rule Charter, the proposed Capital Improvement Program for fiscal years 2007-2011 is hereby submitted. The Capital Improvement Program Summary by Fiscal Year includes City government capital projects, their respective summaries, a complete list of all capital improvements, cost estimates, and other related information. The following employees have earned heartfelt thanks for their contributions to this document: Bill Rehr, Andrew Miller, Henry Tangredi, Sgt. Todd Trupp, Charles Jones, and Ryan Hottenstein.

The Capital Improvement Program

The capital improvement program (CIP) is a multiyear plan used to coordinate the financing and timing of major public improvements for the City of Reading. It contains a comprehensive list of capital projects proposed for the City within the next six years and reflects the recommendations of citizens, boards, commissions, and City staff from throughout the organization. For each proposed project, the CIP presents a summary description, estimate of cost, method of financing, and a schedule of implementation. The capital improvement program constitutes a rational plan for preserving and adding to the capital assets of the City.

Capital Assets and Capital Projects

A capital asset is a new or rehabilitated physical asset that has a useful life of more than seven years and is of significant value. Capital projects are undertaken to acquire or extend the useful life of capital assets. As one-time projects, they are differentiated from ordinary repairs or maintenance of a recurring nature. Examples of capital projects include land acquisitions, the construction of or major improvements to public buildings and roads, and the acquisition of large equipment such as fire trucks. Equipment purchases, however, are not typically considered capital projects unless they are for new facilities or major investments that cost more than $50,000.

The Need for a CIP

It is a common citation in municipal finance publications and witnessed in Reading the catalytic effect capital improvements create in spurring private investment in the community[1]. The objective of the CIP is also to plan for a level of social capital such that the community maintains a viable economic base and provides those amenities necessary for the overall well being of the citizenry. The CIP provides a means for both coordinating and prioritizing the capital project requests of various departments and agencies. The process itself allows for careful consideration of all proposed projects in a more global context than if projects were to be submitted and evaluated in an ad-hoc fashion. In addition to mitigating against wasteful overlap, duplication and delay, the prioritization process ensures that the most important and urgent projects are completed first. The short- and long-term financial impacts of undertaking capital projects enable policy makers to balance City priorities with its financial capacity to pay for desired projects.

Financing Capital Projects

The City has several options for financing capital projects. The single largest source of financing for capital projects, almost entirely relied upon, is borrowing through the issuance of general obligation bonds. Larger projects involving assets with long useful lives are typically financed in this manner. This eliminates the need to temporarily raise taxes every time a large capital asset is acquired or modified. In addition, debt allows current and future beneficiaries to share the cost of long-term capital improvements such as new fire stations, schools or roads. Those who enjoy the year by year benefit of the improvement make the tax payments that match the stream of benefits received. All borrowing is done in accordance with the City Charter.

The City generally seeks to limit bonding to no more than $10 million per calendar year. According to IRS rules, by limiting bonding to $10 million or less per year, banks that hold the bonds enjoy income tax breaks. This benefit translates to a higher effective yield on the bonds. Under these circumstances, the City borrows at a lower actual interest rate on the bonds while still offering the same effective interest rate as municipalities that bond in excess of $10 million in a year.

Some projects, or portions of large projects, may be financed on a pay-as-you-go basis through the General Fund operating budget. Small-scale projects and design phases for larger projects are likely candidates for financing through the annual operating budget. Other financing sources for Reading's capital projects include state and federal grants, appropriations

[1] J. Richard Aronson and John L. Hilley, Financing State and Local Governments, 4th ed. (Washington, DC: Brookings Institution, 1986), Chapter 9.

from the General Fund Balance, appropriations from other City funds, and private sources. The City issues all of its debt in the form of general obligation bonds, but may use alternative revenue sources to pay some or all of their debt service such as the City's enterprise funds. The city's focus then turns to its net debt – that debt whose obligation for repayment falls to the taxpayers of Reading.

Financial Benefits of Capital Planning

When a City seeks to borrow funds, investors and bond rating agencies place a substantial emphasis on capital planning. An organization that goes through a capital planning process is less likely to undertake a series of projects that is beyond its financial capacity. By anticipating capital projects and mapping out means for financing them, the City is providing assurance to investors that it will be able to pay back its debt. The city of Reading has periodically provided a CIP, but other financial factors have prevented the City from obtaining a bond rating since 1986. The city has obtained bond insurance to achieve the equivalent of an AA rating. This favorable rating places Reading in the top 10% of municipalities in the nation, but it comes at the price of approximately a $135,000 expense in a recent refinancing of $15 million, for example. However, the City must continue its aggressive financial recovery process because insurance costs are escalating and interest is waning from the four major insurers[2]. The resulting lower interest rates on Reading bonds translate into tangible dollar savings in debt service payments. As previously mentioned, the CIP process also prevents wasteful overlap, duplication and delay that could occur if the wrong project were undertaken at the wrong time, while deferring more urgent projects.

Development of the CIP

The CIP process begins in earnest in mid-summer when a CIP Task Team of City staff is convened and a request for suggested projects is transmitted to boards and commissions and City departments. The CIP Task Team then prioritizes projects based on pre-determined criteria including health and safety factors, legal obligations, fiscal impact, environmental impact, community and economic effects, and aesthetic and social effects. Projects are also examined in terms of their relationship to other projects, *The City of Reading's Comprehensive Plan 2000*, and their compatibility with City goals and objectives. The prioritization of projects first occurs at the task team level, then again during the City

[2] AMBAC (American Municipal Bond Assurance Corporation), MBIA (Municipal Bond Insurance Association), FGIC (Financial Guaranty Insurance Company), and FSA (Financial Security Assurance)

Council review and public comment. Listed below is an outline of the steps that are suggested for preparing the Capital Improvements Program.

DATE	**ACTION**
May 10, 2006	Memorandum to CIP Task Team, Boards and Commissions
May 24, 2006	Initial CIP Task Team Meeting
July 5, 2006	Project Detail Sheets Due to CIP Task Team
July 19, 2006	Department Directors Submit Prioritized CIP Projects to CIP Task Team
July 31, 2006	CIP Task Team Meeting to Score Projects
August 14, 2006	Draft CIP submitted to Managing Director for Review & To Develop Proposed CIP
September 8, 2006	Managing Director Submits CIP to Capital Improvement Committee for Advice
October 5, 2006	Managing Director's Proposed CIP submitted to City Council and appropriate Boards and Commissions
October 16, 2006	Capital Improvement Committee Reviews Revised CIP and Recommends Changes to Managing Director
November 6, 2006	Public Hearings
November 27, 2006	City Council Reviews and Adopts CIP

The Dynamic Nature of the CIP

The CIP encompasses a five-year period, scheduling the most important, urgent projects in the earliest years. Once the CIP is finalized, Year 1 of the plan is used as a basis for both the capital projects portion of the annual operating budget and for any planned bond sales during the fiscal year. Once funding has been authorized, either through adoption of the annual budget or through a bond ordinance, the projects can begin and are removed from the subsequent CIP.

By and large, each of the remaining projects (which are still unfunded) will move up by one year in the plan. However, because circumstances can change, financial constraints or opportunities can emerge, and priorities can shift, the schedule for unfunded projects needs to be revised each year. Projects may be moved up, moved back, or even eliminated from the plan. This is especially true for projects in the final years of the plan.

This constant review ensures that the CIP maintains its flexibility and can be adjusted to align with a changing environment while still providing community leaders and City officials with a clear view of what lies ahead.

Statistics and Financial Information

In addition to prioritizing proposed capital projects by assessing their respective importance and urgency, the process of preparing the CIP also demands that these projects be evaluated within the City's overall demographic and financial context. Demographic factors provide insight into future demands on the City's infrastructure while financial indicators illustrate the City's capacity to finance desired projects.

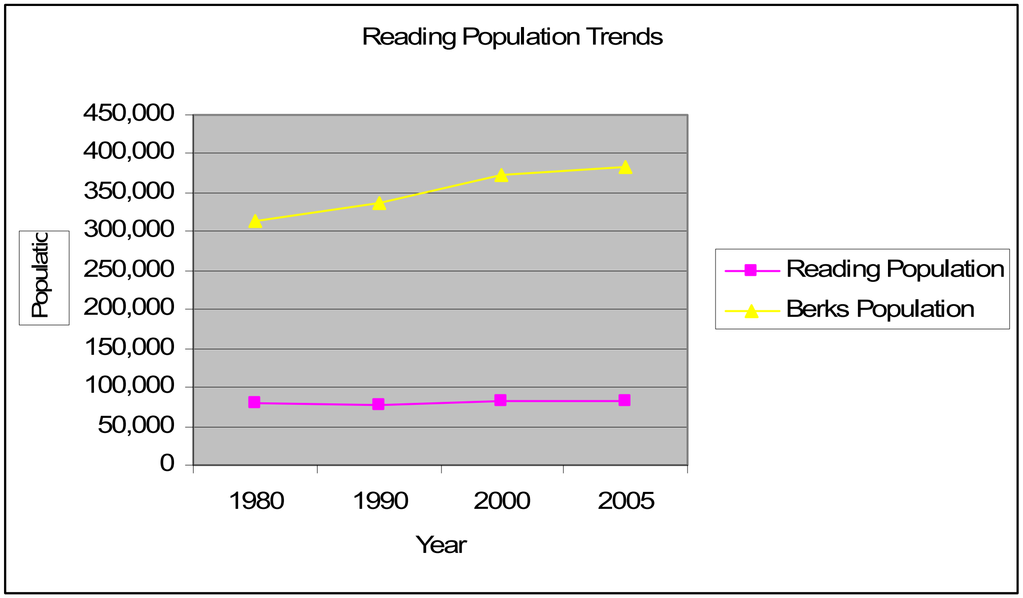
While some trends will provide an indication as to what kinds of projects should be undertaken, others may reveal a need for more detailed information. Therefore, the CIP may, at times, include projects that involve information gathering and assessment on such things as the condition of City buildings and roads and traffic patterns. These analyses are necessary for a responsible balance between seemingly unlimited wants and needs with limited resources. The remainder of this section is devoted to analyzing trends in Reading's population, financial standing and debt service.

Demographics and Development

Reading has a better understanding of how the City changed over the last decade now that the 2000 Census has been completed, and with the advent of the Pennsylvania Economy League's *Updated Analysis of the Present and Prospective Financial Condition of the City of Reading* (2004), and the report by the Mayor's Task Force on Financial Stability (2004). The Reading Comprehensive Plan (2000) and other studies such as the City of Reading 10-Year Park, Recreation, and Open Space Plan (2002) also provide valuable insight and planning for the community's future. These studies have a large bearing on the CIP's development. Not doing so would render these efforts useless, and undermine future planning initiatives.

Population

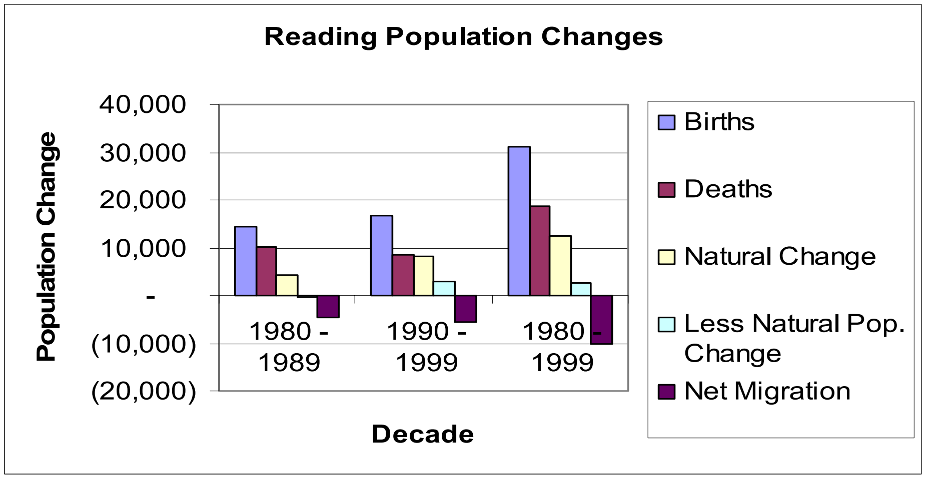
Changes in the population affect the demand on the City's infrastructure. Population data can offer insight in determining capital needs and where preservation or expansion of the City's physical and capital plant is necessary. Between 1990 and 2000 Reading experienced an increase in population from 78,380 to 81,207 – growth of 2,827, or 3.6 percent. The U.S. Census Bureau also estimates Reading's population to be 81,302.[3] It should also be noted that the American Community Survey's methodology is quite different from prior U.S. Census Bureau work and it reliability is in question. This trend lags the growth experienced in Berks County, but defies the trends seen in other 3rd Class cities in Pennsylvania. Berks County's population rose by 37,115, or 11 percent. Following a period of constant population decline through the 1960s, 1970s and 1980s, the most recent census data indicates this trend has been reversed and Reading's population is now



[3] **2005 American Community Survey**

on the rise (see table) albeit at a slow rate.

Population estimated provided by the U.S. Census Bureau suggest that the City of Reading lost 713 residents or 0.9 percent of its population between 2000 and 2002, however, the total population is now up to 81,302 according to the recently released 2005 American Community Survey. Berks County was estimated to have increased in population by 9,279, or 2.5 percent since 2000. In sum, the City of Reading is experiencing stagnant population growth. Some could view this as a negative trend, but the alternative view is that demand on Reading's infrastructure should be constant, and the City has time to ensure its reliability.

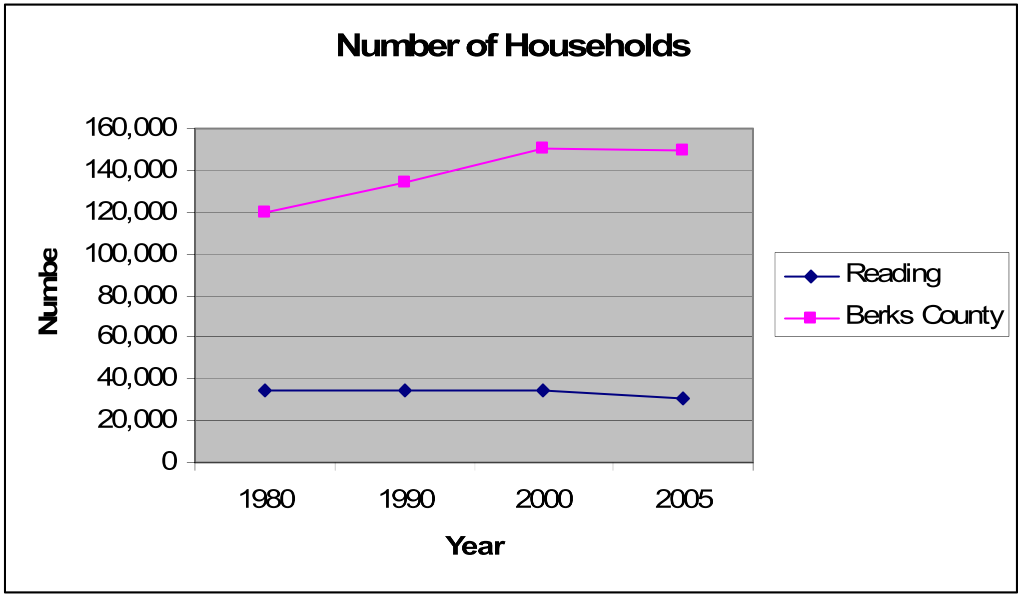


The City is also experiencing demographic changes despite stagnant growth. Between 1990 and 1999, births totaled 16,660 and deaths totaled 8,415 producing a natural increase in population of 8,245. According to U.S. Census figures, however, the City's population rose by only 2,827 during this period suggesting that net out-migration during the 1990s totaled 5,418 persons. This trend can also be observed over a longer period of time. Overall, for the period 1980 to 1999 resident births in the City of Reading totaled 31,141 and deaths totaled 18,575. This produced a "natural" increase in population of 12,566. The actual change in total population, however, was a net increase of just 2,521, suggesting that out-migration totaled 10,045 – weighted somewhat more heavily by the experience of the 1990s than the 1980s. The City is experiencing a significant out-migration despite a significant natural birth rate.

Housing

The total number of housing units in the City of Reading shrank by 3,338 or 9.7 percent between 1990 and 2005 from 34,276 to 30,789. In the meantime, the County increased housing units by 29,517, or 24.7 percent. Housing growth was more stagnant in the previous decade. During the 1980s, the total number of housing units in the City of Reading grew from 34,127 to 34,276, or by 0.4 percent. Countywide, the number of housing units rose by 14,931 or 12.5 percent between

1980 and 1990. The twenty year trends are more pronounced. The number of housing units in the City grew by just 187, or 0.5 percent. Berks County housing units grew by 30,671, or 25.7 percent. As with total population, Reading's trend in the number of housing units lags that of the County as whole by a wide margin. This data is clear evidence of sprawl that further endangers the viability of the city.



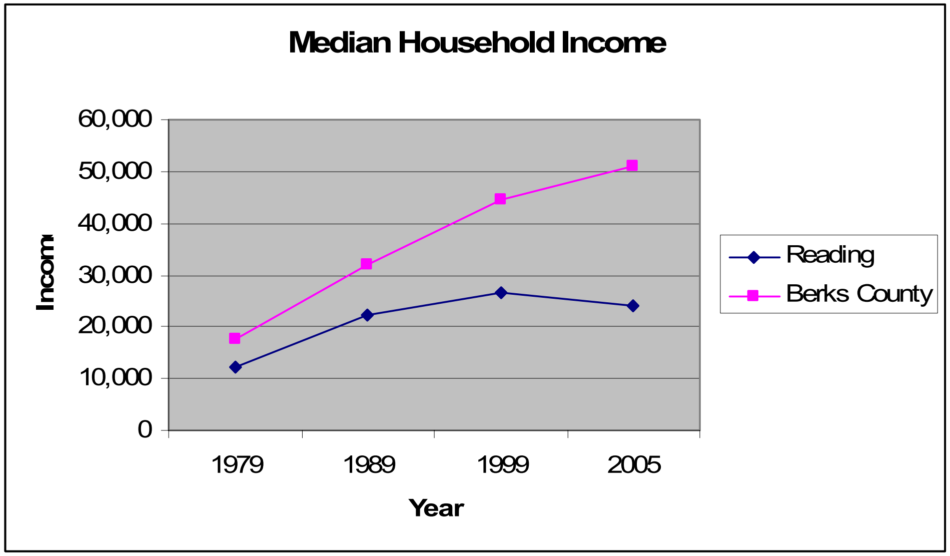
As with population trends, there are more revealing trends within this information. In 2005, owner –occupied housing units in the City totaled 14,946 and represented 48.5 percent of the total; renter-occupied units totaled 15,843, or 51.5 percent of the total. Prior research documents vacant housing units totaled 4,201, or 12.2 percent of the total (the recently completed Vacant Housing Study completed by the University of Pennsylvania's Fels Institute put the latter number at 2,000 units). The number of owner-occupied housing units in the City was down by 2,204, or 12.6 percent from 1990 when they represented 51.2 percent of the total; renter-occupied units rose by 914, or 6.6 percent during this same period and increased from 40.4 percent of the total in 1990, and vacant housing increased by 1,328, or 46.2 percent during the 1990s, and was up from 8.4 percent of the total in 1990. In 1980, owner-occupied housing units in the City totaled 18,126 and represented 53.1 percent of the total, renter-occupied units totaled 13,766, or 40.4 percent of the total, and vacant housing units totaled 2,225, or 6.5 percent of the total. In sum, while the overall number of housing units in the City has been stagnant, a shift is occurring from owner-occupied to renter-occupied, and the number of vacant units is growing – in absolute numbers and as a percentage of the total. These trends are evidence of increasing slum and blight, and general decline in neighborhood viability.

Income

In 2005, median household income in the City of Reading totaled 24,026– down by $2,672 or 10 percent from $26,698 in 1999. During the same period, per capita income in Berks County grew from $14,604 to $21,232, or $6,628, or 45.4

percent. Between 1979 and 1989 per capia income in the City of Reading rose from $6,083 to $11,041, or by $4,958, or 81.5 percent. During the same period, per capita ncome in Berks County grew from $7,350 to $14,604, or $7,254, or 98.7 percent.

In 1999, 26.1 percent of the total population of the City was below poverty status. The percentage increased from 19 percent of the total in 1989. During the ten-year period the number of individuals below the poverty level rose by 5,825 people, or 39.2 percent. In 1979, 12,883 individuals, or 16.4 percent of the total population of the City was below poverty status. By 1989, that figure had risen by 1,974 people, or 15.3 percent. By contrast, Berks County saw a 4.9 percent increase during the 1980s. In sum, the proportion of persons below the poverty level in the city is much higher than for the county as a whole and thr rates of growth in these figures is also greater than the county.



Real Estate Assessed Values

As the source of what is now approximately 40% of General Fund revenues each year, the assessed value of all taxable property in Reading is an important indicator of Reading's financial health. Between 1997 and 2002 the market value of property in the City of Reading grew by 9.7 percent while the market value of Berks County as a whole rose by 22.5 percent. The market value of the City represented 8.4 percent of the County as a whole in 1997 and fell to 7.6 percent by 2000. Between 1998 and 2003 the assess valuation of taxable property in the City of Reading declined by 3.2 percent compared with an increase of 10.2 percent for Berks County. Reading's assessed valuation represented 10.2 percent of the County in 1998, and fell to 9 percent by 2003. In addition, the assessed valuation of taxable property in the City of Reading declined by 11.6 percent from 1994 to 2003, but values increased 17.1 percent in Berks County during the same period. Once again, this data reflects a community in significant declines in wealth, and relatively drastic measures need to be taken for its reversal.

Assessed Value Changes FY 1998-2004

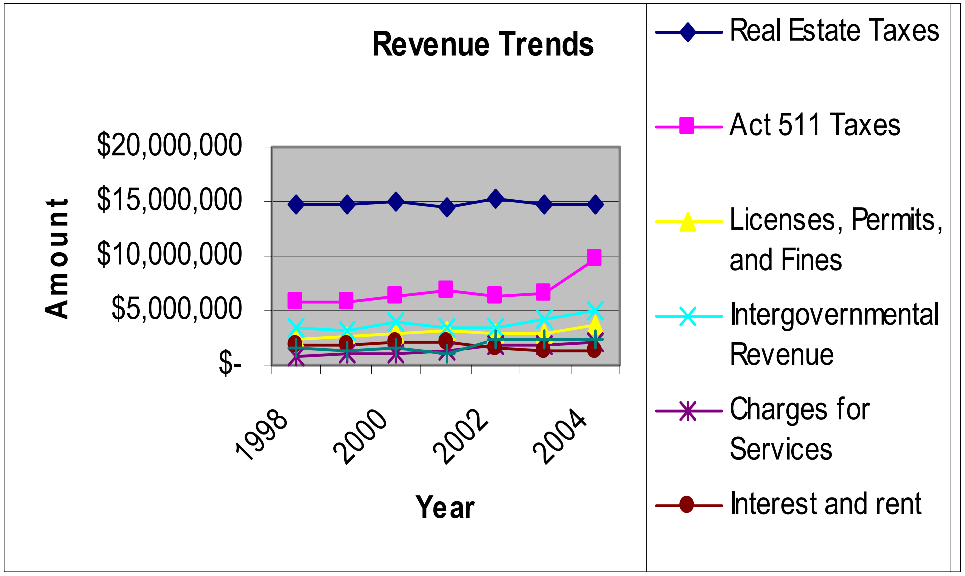
Fiscal Year	Grand List	Net Taxable Assessed Value	Dollar Change	Percent Change
1998	1/1/1998	1,503,475,942	n/a	n/a
1999	1/1/1999	1,491,552,872	-11,923,070	-0.79%
2000	1/1/2000	1,468,219,640	-23,333,232	-1.56%
2001	1/1/2001	1,433,217,840	-35,001,800	-2.38%
2002	1/1/2002	1,429,277,980	-3,939,860	-0.27%
2003	1/1/2003	1,432,936,820	3,658,840	0.26%
2004	1/1/2004	1,428,270,460	-4,666,360	-0.33%

Source: Berks County

A look at assessed values indexed to the total number of households reveals a similar conclusion that Reading's wealth is generally stagnant, especially when compared to Berks County. As cited earlier, the number of households is holding steady or declining, but the composition of Reading's population is showing signs of greater socioeconomic decline. Values are declining amidst out-migration and sluggish income growth.

Taken alone, the total assessed value provides a limited picture of the City's capacity to provide services. Looking at the assessed value in terms of the overall demand for services offers additional insight into the level of resources available for maintaining services. The number of households in a community is one indicator of the demand for municipal services. Therefore, assessed value per household can be used to track whether or not available resources are growing at the same pace as the demand for services.

The little growth in the number of households in recent years has not been perfectly matched by stagnant growth in the assessed value, as the accompanying table shows. In the most valuation year, however, favorable growth has reversed this trend.



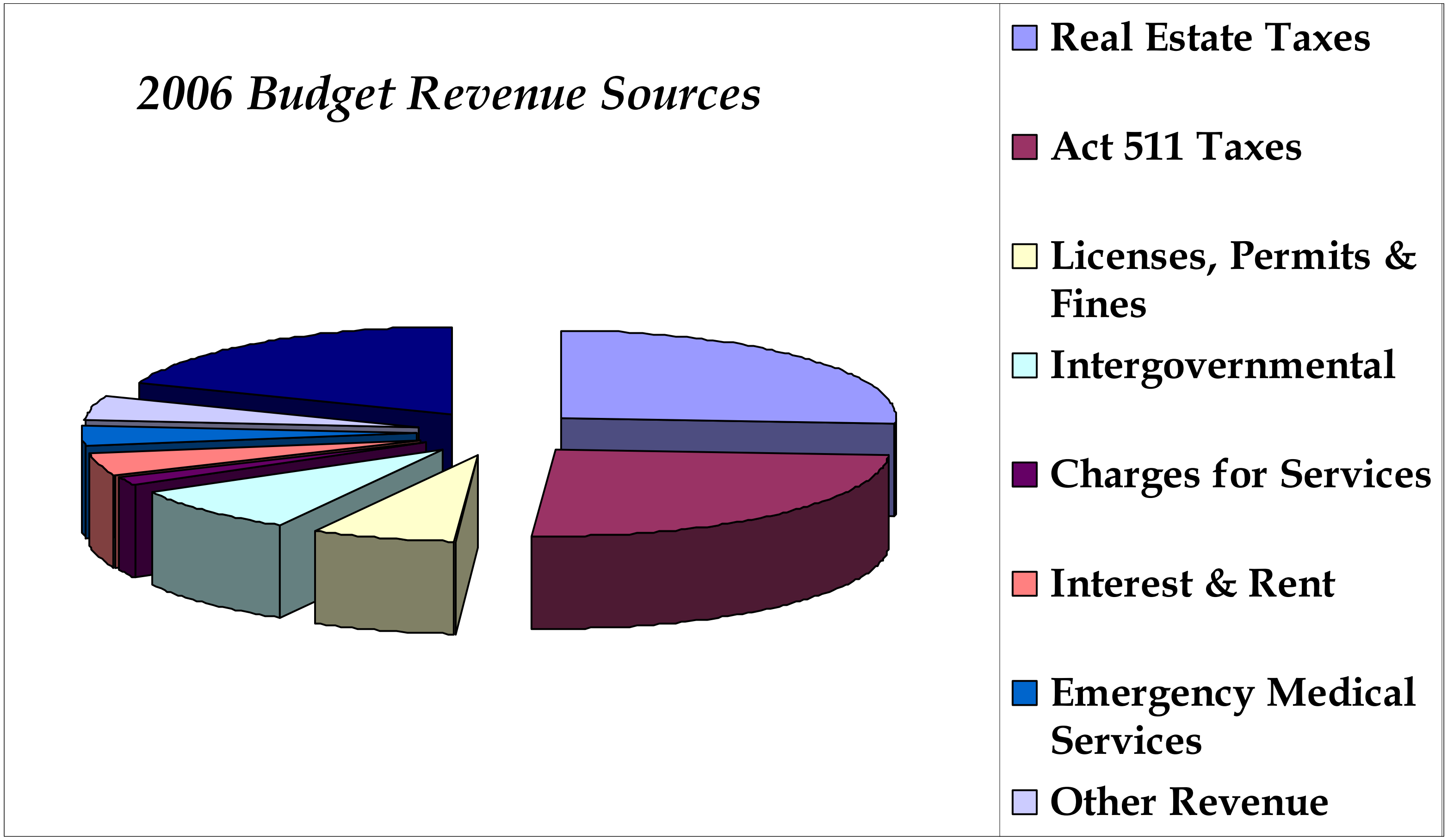
Revenues

Historically, tax revenues have provided approximately half of the General Fund (operating budget) revenues each fiscal year with the remaining half derived from local revenues and fees, transfers, State and Federal aid and interest on investments. However, the City's reliance on property tax revenues has declined to 26 percent of 2006 General Fund revenues, down from 38 percent for the FY 2005 budget. This decline is largely due to stagnant total assessed value and heavier reliance on transfers in and various 511 taxes. Out of the total 2006 General Fund budget of $59.2 million, property taxes will generate nearly $15.4 million. Conversely, 511 taxes have grown significantly since 1998. The City itself has played a large role in this reliance by increasing the Earned Income Tax from 1 percent in 2003 to its current level of 1.7 percent in 2005. The Commonwealth of Pennsylvania has played even a larger role by instituting the EMS tax, a replacement of the Occupational Privilege Tax, and effectively increasing it from $10 per worker to $52 in 2005. Total 511 Taxes now account for 25.1% of 2006 General Fund revenues, up from 24.4 percent of General Fund revenues based on the 2005 Budget. Real estate transfer tax revenues are increasing at a very fast rate and have already surpassed all of 2005 revenues in August 2006.

This taxing policy has merit by relying less on property taxes and increasing reliance on consumer-based taxes – that is taxes based more on economic activity and wealth. This taxing policy also means the City needs to increase its economic development efforts in order to maximize the potential revenues from a growing workforce and its income. Other revenue sources are generally constant since 1998. Licenses, permits, and fines have hovered around the 8 or 9 percent level over the years. Intergovernmental revenues and charges for services increased by 2 percent over the same period. However, the

City's reliance on interest and rent declined from 6 percent to 3 percent largely due to low interest rates and less funds to invest (see discussion of fund balance below).

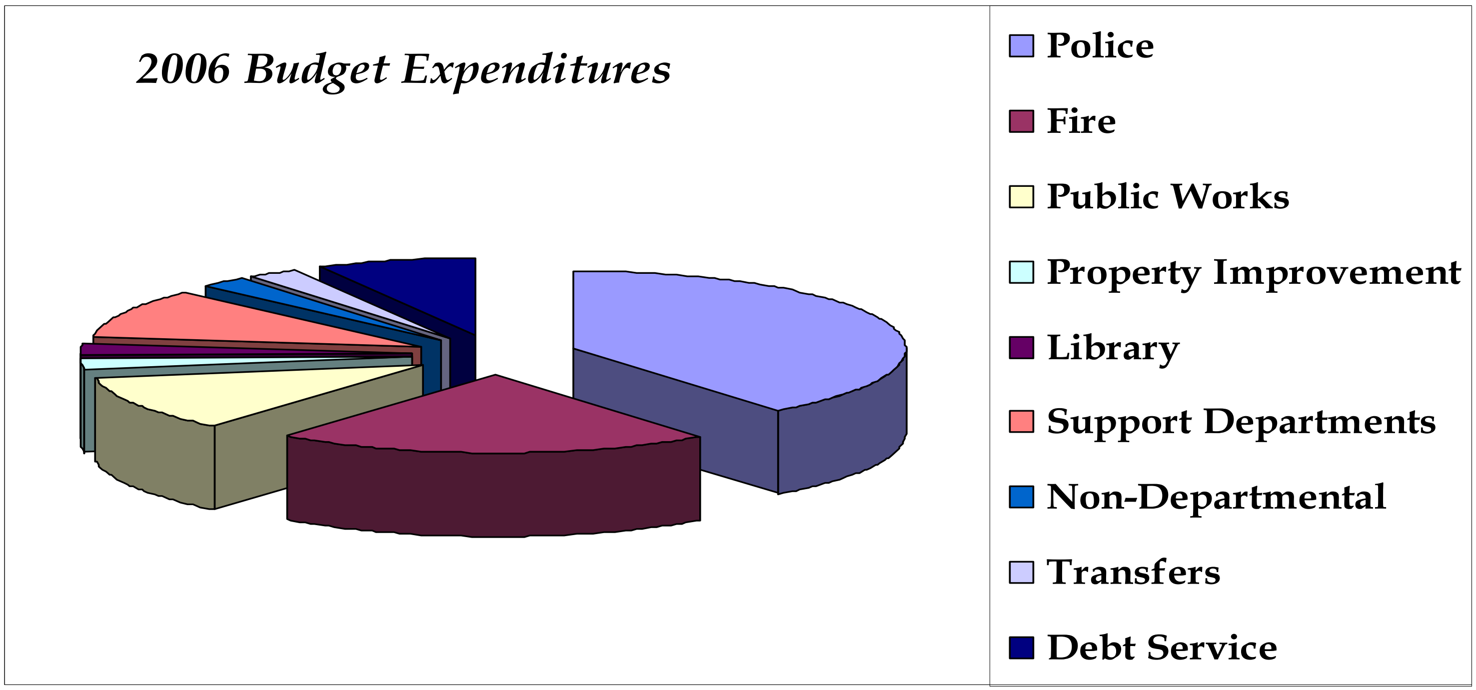
The City appears poised to enjoy a balanced revenue mix in 2006 and beyond as long as all of the sources grow at comparable rates and consistent with the cost of doing business. The City has reasonable basis to be optimistic with the opening of Sovereign Bank's Operations Center, KVP, Quaker Maid Meats, and possibly other projects that re-establish Reading as workforce center in Berks County.



Expenditures

General Fund budgeted expenditures for FY 2006 are $59,205,207, up from $53,297,591 in 2005. Budgeted expenditures compared to the previous year increased by $5.9 million. This large increase was necessary to better reflect the actual expenditures in many areas such as Police, and reflected strategic investments in areas like Code Enforcement. The City's expenditure profile shows a deliberate emphasis on police, fire, and public works. This allocation shows a proper emphasis on public safety and infrastructure improvements in the community.

The City projected an imbalance between revenues and expenditures and introduced cost containment measures in mid-2004. The City has also introduced some budget management reforms such as more conservative budget estimates, monthly monitoring of all department expenditures. The City engaged a cost reduction services that have identified approximately $250,000 in General Fund savings, and is currently in the process of restructuring its legal support and risk management services. These areas hope to realize another $250,000 in annual savings. The City has recently restructured its risk and insurance services and project to realize another $317,000 in annual savings.



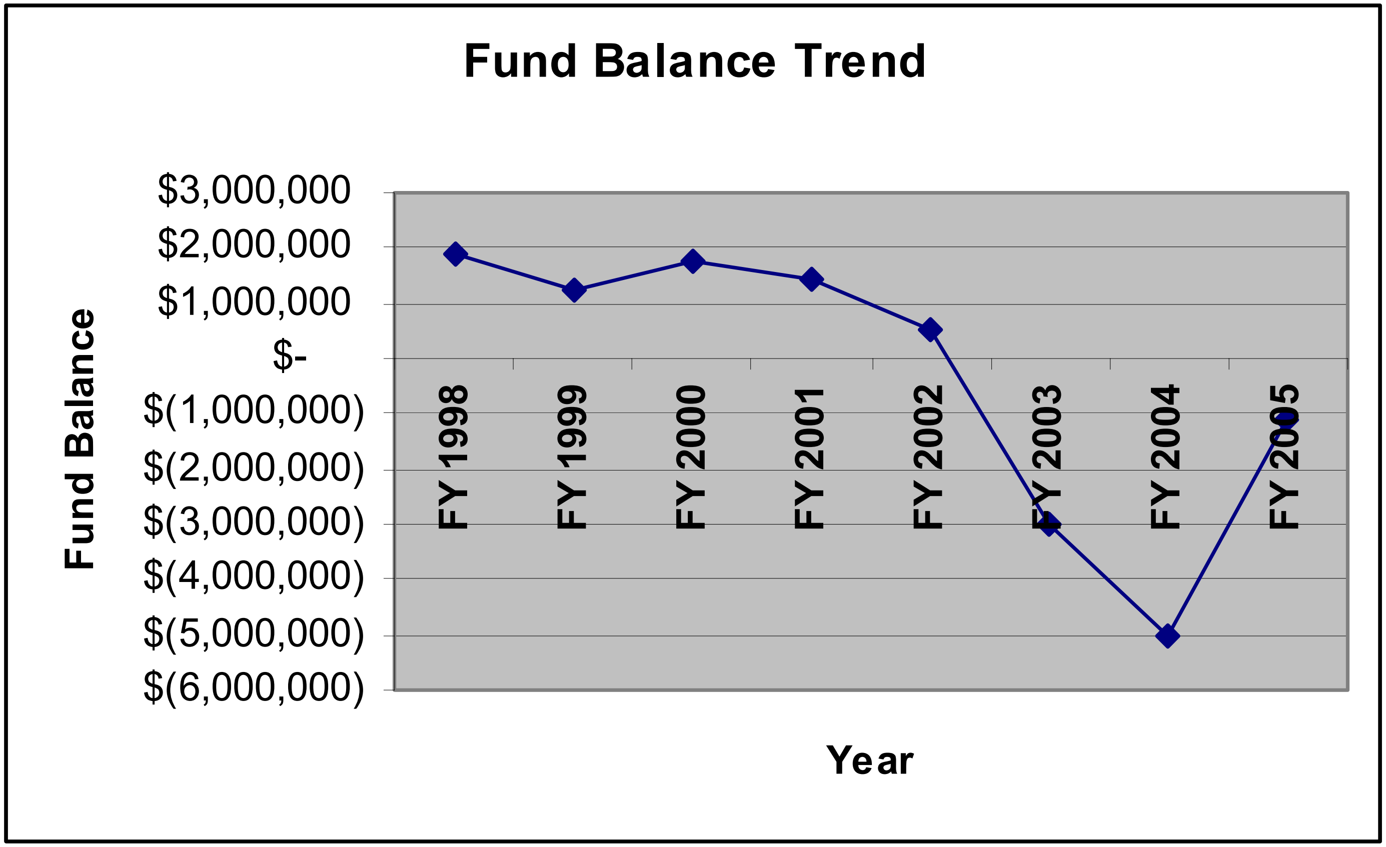
Fund Balance

Fund balance, or reserves, refers to the cumulative difference between revenues and expenditures over time. The City's fund balance changes each year, increasing when the City achieves a budget surplus, or decreasing when the City experiences a budget deficit. Fund balance also changes when City Council authorizes additional appropriations outside of the budget process. Not all of a City's fund balance may be available for appropriation. Usually, a significant percentage of the fund balance is encumbered or reserved for future obligations. The remainder, referred to as the unreserved, undesignated fund balance is available for appropriation.

Fund balance is significant for a number of reasons. It is a measure of the City's ability to withstand financial emergencies or to undertake unforeseen, but necessary, projects. Ratings agencies place special emphasis on fund balance when assigning bond ratings to municipalities and view adequate fund balance as an indication of sound financial management.

These agencies generally recommend municipalities maintain fund balances between 5% and 15% of operating revenues. Reading's adopted Fund Balance Policy is to maintain an unreserved, undesignated fund balance 5% of budgeted operating expenditures. Higher amounts may have to be contemplated if the City continues to rely upon consumer-driven revenues such as the real estate transfer tax.

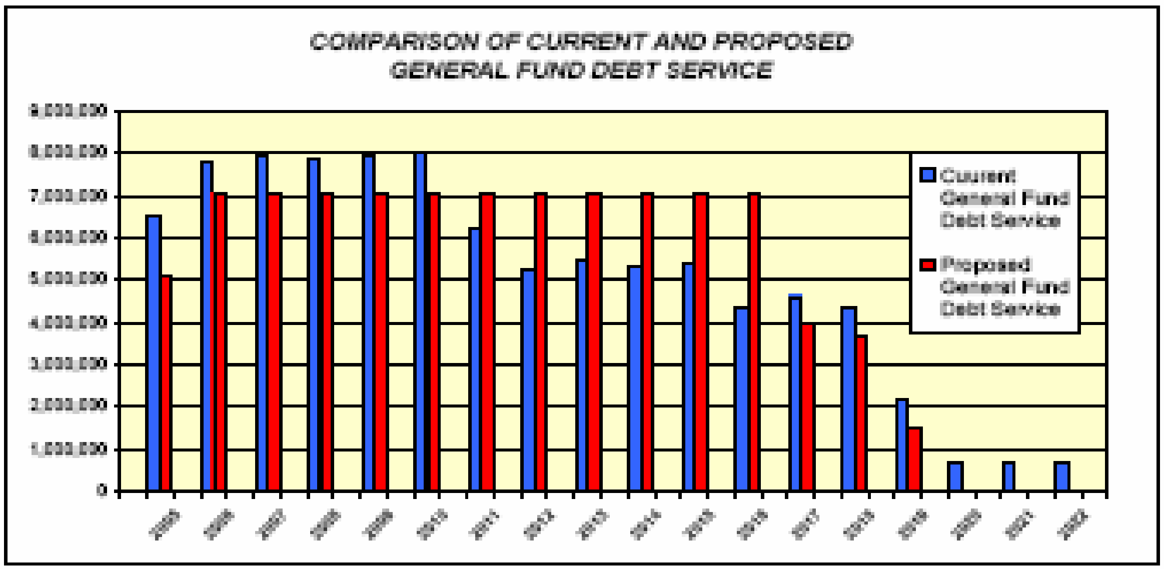
Reading's unreserved fund balance has not been within the 5% recommended by rating agencies since 2001. At the close of FY 2004, Reading's general fund balance was -$5 million. The City has a recent history of not showing proper budget discipline and making commitments without a commitment for funding. The City has also taken several

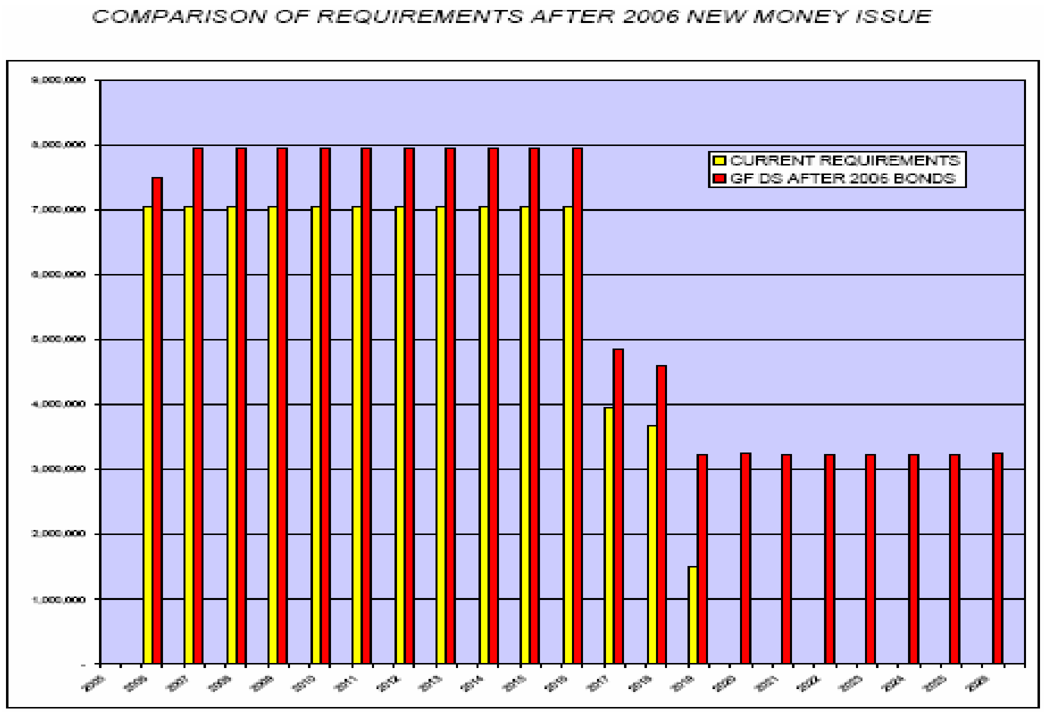


steps in 2005 to eliminate the negative fund balance status. They include interest rate swap transaction ($750,000); real estate sales ($750,000); debt restructuring ($1.5 million), and the anticipated sale of Antietam Lake area property ($3 million). The City's General Fund deficit had been reduced to -$1.1 million at the end of 2005, and is projected to turn into a fund balance in 2007 if the City continues to pursue interest rate swaps, forward bond sales, and realize the estimate $4 million in proceeds from the sale of Antietam Lake area property.

Debt Management

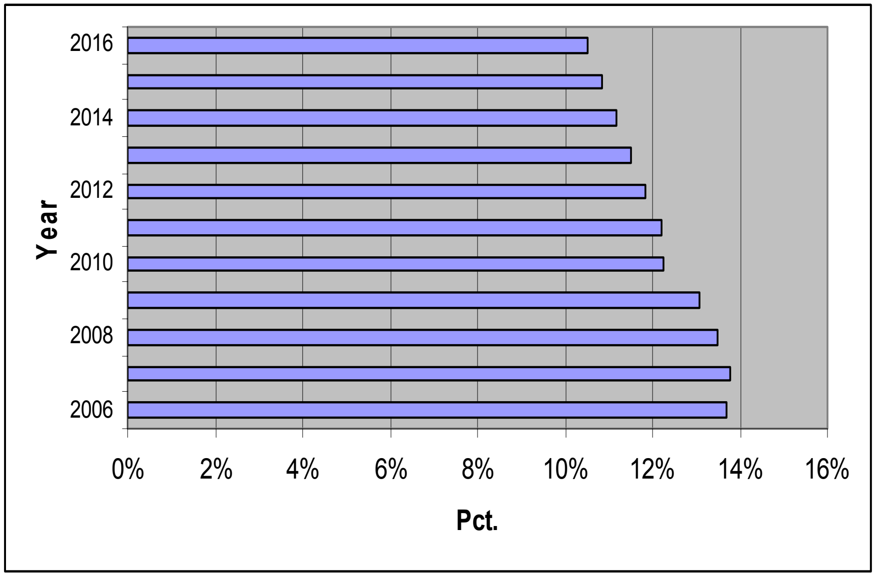
Historically, Reading has adhered to certain practices in order to maintain a debt burden that is in line with available resources. First, Reading held its total debt service requirement to within 10% of total operating expenditures. This is consistent with recommendations from bond rating agencies that debt service be held to within 5% and 15% of the total operating budget. However, Reading's total debt service for 2006 was precariously close to the 15% threshold although net debt (debt ultimately the responsibility of taxpayers is around 10%). This projection along with the desire to create more capacity within existing appropriations prompted an analysis to restructure the current debt. The chart below shows how Reading's debt service has been decreased from nearly $8 million annually to a little above $7 million through 2016. This reduction allows the City to aggressively pursue reinvestments in the community without increasing the burden on taxpayers. Second, Reading limited its debt such that the total amount of bonds issued would not exceed 50% of the City's legal debt limit. The legal debt limit, which is based on the previous year's tax collections, is so high that it has not provided a practical limitation on debt.



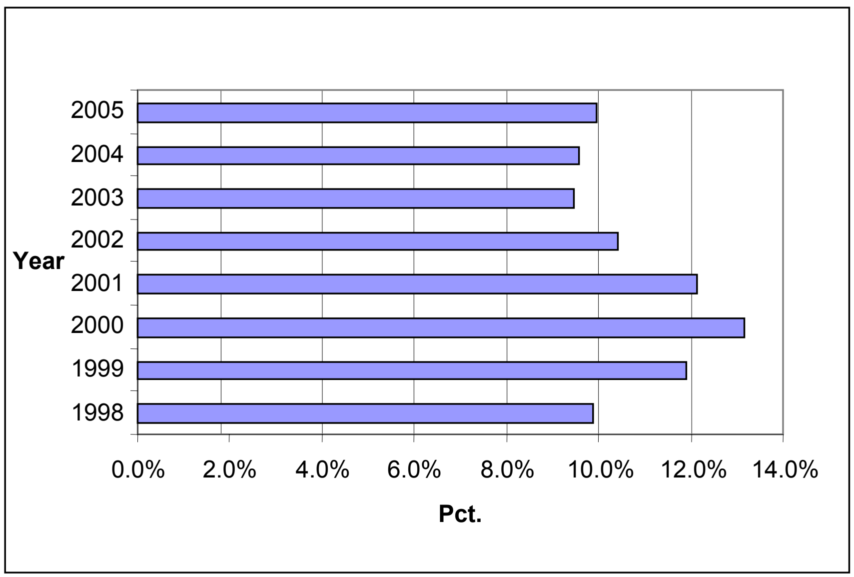


The proposed capital improvement program was developed such that debt service would not exceed 8% of annual operating expenditures. This is consistent with the adopted Debt Policy. The slope depicted in the graph should be considered the minimum debt service payments the City can expect to make in coming years in the absence of any new capital projects. Should the City undertake any new projects, such as those described within this capital improvement program, annual payments will be higher than those depicted in this graph.

An additional look at debt service based on the Proposed 2006 – 2010 CIP shows that projected debt can be addressed by the City's General Fund barring drastic revenue declines or unfunded mandates and expenditure requirements. Based on debt that the City has already issued, a baseline projection of debt service payments can be graphed. The adjacent graph projects annual debt service payments on existing debt. Annual payments on existing debt are projected to be level from FY 2006 through 2011 before going into a steady decline. The graph below illustrates the projected effects on debt service of implementing the capital improvement program as proposed herein. This debt structure is also proposed to have a level, thus predictable structure through 2016, and then declining sharply through maturity. The proposed debt service level is comparable to the debt service level seen before restructuring in September 2005. This type of debt structure is appropriate for a community with stagnant incomes and wealth, and a City with a difficult financial recovery ahead.



Projected Ratio of Debt Service to Total General Fund Expenditures



Historical Ratio of Debt Service to Total General Fund Expenditures

As in the previous chart, the diamonds represents debt service payment existing debt that has already been issued by the city. The gap between the two bars for each year represents payments on existing debt plus debt that would be incurred through the implementation of this proposed Capital Improvements Program. Of course, any additional projects undertaken by the City would result in higher debt service. General Fund expenditures are increased annually based on historical trends, which is approximately 3 percent.